How feasible is a new generation of Co-operatives in Australia?

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CoHousing AUSTRALIA

IMAGINE HOUSING

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This report has been funded thanks to the Bunya Fund, Australia's first co-operative and mutual enterprise sector fund that supports the next generation of co-operative and mutual social enterprises.

The Bunya Fund was launched by the Business Council of Co-operatives and Mutuals with the aim of helping to grow Australia's co-operative and mutual sector by bridging the funding gap for early- stage enterprises to develop their businesses. It provides funding for education, training, advisory and mentoring to support emerging co-operatives and mutuals with high economic, social, cultural and environmental impact.

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Acknowledgment of Country

The authors of this report acknowledge and pay respect to the past, present and future Traditional Custodians of this nation and the continuation of cultural, spiritual and educational practices of Aboriginal and Torres Strait Islander peoples.

We acknowledge that land and sovereignty were never ceded and the enduring connection of culture, community, land, waters and sky, and pay our respects to their Elders past and present.

Acknowledgment of climate and biodiversity emergency

The authors express concern about the climate and biodiversity emergency, the impacts we will all experience and the unequal impacts.

We seek to foster a regenerative approach to housing that imagines and develops better built, natural and social environments through collaborative and community-led housing.

Cover page image

- Mehr Als Wohnen, Hunziker Areal Zurich, photo Johannes Marburg 2016

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This study has found that in the current economic climate a privately funded At Cost Housing Co-operative could deliver:

- A replicable model of 'at cost' housing for 'Missing Middle' households with ongoing housing charges less than current market rental rates.

- A stable and long term tenure solution that does not penalise resident income growth over time.

- Rent stabilisation with 'cost rent' that enables residency charges to become more affordable over time when compared with the private rental market.

- A form of collaborative housing that sits between home ownership and private market rental that does not rely on the investment of high amounts of personal equity. Collaborative housing models perform significantly higher in sustainability, community resilience and wellbeing indicators due to citizen participation in governance and community life.

- Commercial returns for ground leases to long term land holders (both public and private) which removes the need for significant government subsidies, and provides an alternative pathway for development without the sale of land.

At Cost Housing Co-operatives have the potential to provide a platform for a scalable model of secure tenure housing without ongoing subsidy for 'missing middle' households - defined as households who earn too much to qualify for Affordable Housing assistance, but are priced out of ownership in middle and inner ring locations in Australian cities.

At its core, we believe that Australia is in the midst of both an ownership crisis and a rental crisis. Households in major metropolitan centres and regional cities can't afford to buy their own home close to jobs, public transport and social networks, but renting is increasingly untenable, with limited supply of appropriate long term affordable properties, escalating rents, poor quality housing and lack of tenure security.

Our collaboration and this study aims to address the widening gap between home ownership, the emerging premium build to rent sector, and the Community Housing (CHP) sector. This study is the first step in establishing a values driven organisation to increase the supply of modest sub-market, secure tenure accommodation and create downward pressure on the relatively unregulated private rental market to better service 'Missing Middle' households.

The 'Missing Middle' housing co-op model allows members to secure housing within the co-op by purchasing a share of the co-op via an initial upfront Membership Fee. It is in effect, a co-ownership model. This upfront fee represents ownership of a share in the co-op, which gives the member a vote on the housing co-op management committee and an associated right to reside in the co-op property. The housing co-op owns the building and is responsible for maintaining the building and covering its operating and capital expenses.

Members also pay a 'Residency Charge', a monthly fee that covers the ongoing operating and capital expenses of the co-operative. This structure gives members agency and self-determination over how the building is managed and how the operating entity manages its income and expenses.

Facilitating the settings that enable the co-operative housing sector would prioritise community over profit, enabling residents to have greater agency over their health and wellbeing, and in turn reducing the burden on the public sector in the long term.

Adapting international approaches to co-operative housing on a combination of government, faith based, business and privately-owned land in the Australian context would create more diverse and affordable housing supply and provide a long term, secure tenure housing option for Australians locked out of home ownership.

The Opportunity

- Adaptation of an existing housing model centred on resident agency into a new class of collective ownership for 'generation rent'
- A new non-profit model of secure tenure housing that better meets the needs of 'Missing Middle' households than the dominant premium build-to-rent offerings in the Australian context.
- A new form of collaborative and community-led housing that does not depend on significant resident equity or Government subsidy.
- Self-sustaining cost of housing for residents that grows more affordable over time

Below

- Mehr Als Wohnen, Hunziker Areal Zurich, photo Johannes Marburg 2016

The International Experience

In Zurich, 20 percent of all housing is delivered and managed by housing co-operatives, creating a 'third way' between unaffordable market rental and scarce social housing. This sector underpins tenure security, allows for a greater range of career and life choices, and redirects resident investment into higher productivity and entrepreneurial sectors of the economy outside of housing. This broader range of housing options has proven crucial to attract and retain talent, support a diverse labour force and enhance the competitiveness of urban areas (Goulding, 2018).

In Manhattan, where 74% of apartments are co-operatives (DW Gibson, 2022), many housing co-operative members are owners, not renters. Part of the positive narrative about the sector is the benefit of converting people to 'owners' - with more security comes greater place attachment and more contribution to the neighbourhood. Members jointly own the co-op, and the building is run 'at cost' and those costs are distributed across members, using a formula, usually based on a number of bedrooms, or floor size, or a combination of both.

Co-operative housing has also proven to be a highly effective activator of space, increasing the dynamism of neighbourhoods, as well as offering an alternative, more equitable instrument of regeneration whilst protecting against the displacement effects of urban gentrification (Choi et al., 2018, Engelsman, Rowe, and Southern, 2018).

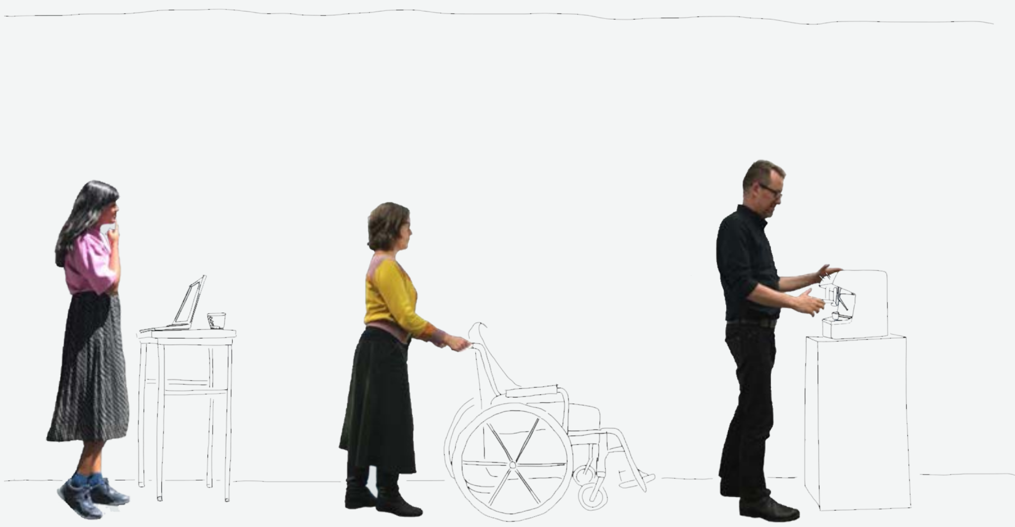
Next Steps

The interest in co-operative housing models, offering good quality and secure tenure housing, is steadily growing across urban and regional areas in Australia as ownership becomes more and more difficult to obtain. Interest has been expressed in co-operative housing in such diverse places as Melbourne, Sydney, Canberra, Cairns, Margaret River, Byron Bay, Hobart, Victoria's Surf Coast, Yackandandah, Stawell and Eden.

What is now required as a matter of priority is the delivery of a modest pilot demonstration project for a community of between 30-50 homes in scale. To do this we seek:

- **Landowners** who are values-aligned and open to a long term commercial ground lease arrangement.
- **Impact investors** prepared to invest for the long term and fund the development and investment phases.
- **Debt funders** willing to offer low margin long term investment phase debt to allow commercial ground leases to be paid for securing the land.
- **Member and employee focused organisations and businesses** looking to invest in creative ways to deliver more affordable and secure housing for their members and employees.

Creating a 'Third Way' or 'Middle Ground'



Workers and locals that are the lifeblood of our cities are increasingly being priced out.

Our current rental housing system is broken.

Imagine if renting was more than a Plan B.

Imagine if renting was a form of ownership and promoted strong communities.

92%

of renters aspire to own their home

HIA Survey, March 2019

78%

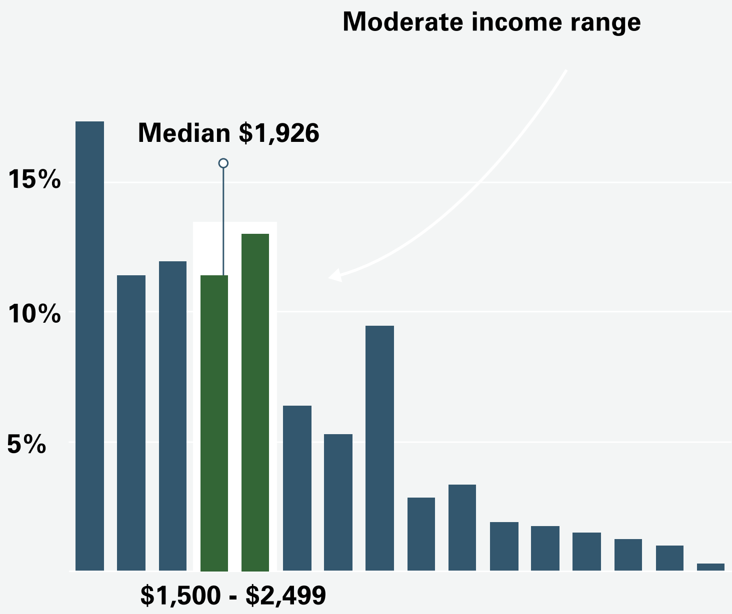
of renters think ownership is unattainable

50%

of young people are unlikely to own their own home

Terry Burke, ABC Interview, October 2019

Two-thirds of renters in the City of Sydney on moderate incomes are experiencing housing stress



Yet the benefits of providing targeted affordable housing to the broader community and economy are well understood

Cost

$8.5b

Better housing incentive

Benefit

$3.5b

Time travel savings

$30b

Human capital accumulation

$7b

Reduced rental stress

Benefit-to-cost ratio (BCR) 4.80

Strengthening the Economic Cases for Housing Policies, UNSW (2019)

Build to Rent

15% above market rent

- High - very high incomes
- Managed by real estate agency
- Reliant on resident equity

Missing Middle Housing Co-operative

10% below market rent

- Mostly Moderate income quintile including some key workers
- Managed by co-operative and community of tenants
- Run at cost
- Capped rent escalation*

*Refer Appendix 3

Affordable Housing

25% below market rent

- Mostly Low income quintile
- Eligibility asset limits and ballot
- Managed by community housing providers
- Reliant on Government subsidies
- Capped at 30% of tenant income

Social Housing

- Low to Very Low incomes and special needs
- Eligibility asset limits and waitlist
- Managed by government or community housing providers
- Reliant on Government subsidies and Rent Assistance
- Rebated rent capped at 25-30% of tenant income

Through engagement with government, non profit and private sector development companies, it has become increasingly clear that the majority of the housing sector is focused at two ends of the equation. Private developers are geared to target the maximum possible price within a competitive market while government attention is focused on housing of the most vulnerable.

What is being neglected is the significant opportunity to provide housing for the 'middle' and the effects this could have across the full spectrum of the housing market. The provision of a significant volume of moderately priced housing that does not require government subsidy would provide both a step up for residents ready to leave the regulated affordable housing sector, while creating downward pressure on prices within the unregulated private rental market.

'Affordable Housing' is often used by different stakeholders to mean different things. This report applies the definition used within Victorian and NSW planning legislation. Broadly, this definition requires housing to be appropriate to the household and cost no more than 30% of household income, for the lowest 3 income quintiles - categorised as Moderate, Low or Very Low Income households. Income limits for these households are updated annually. Dwellings with housing costs higher than 30% of these income limits do not meet the definition of 'Affordable Housing'.

A critical element of any affordable housing system is how the 'rent gap' is addressed, which is the value differential between the cost of constructing and operating a residential building, and the rent paying capacity of social and affordable tenants. The rent gap is particularly prominent in very low and low income earners, where the income earning potential of tenants is very limited, and social risks are most highly concentrated. The only method of increasing the supply and quality of this critical sector is longitudinal capital subsidies, and after-housing rent assistance such as Commonwealth Rent Assistance.

With the significant increase in development costs that has recently occurred, opportunities for moderate income households to cover the costs of construction and operation of a residential building without subsidy have become significantly more constrained. Increasingly, this cohort would require some level of assistance to close the 'rent gap'. In an outer suburban or rural context, moderate incomes might be sufficient to find appropriate and affordable housing options. However it is increasingly impossible to do so within more centrally located, urban neighbourhoods and in many regional contexts. AHURI data shows an increasing trend of moderate income households moving out of these locations.

It's important to note that this cohort includes key and essential workers - employees in services that are essential to a city's functioning but who earn low to moderate incomes, and work roles that require them to be physically present at a work site rather than being able to work from home. Without an effective subsidy being available, this cohort is likely to continue moving away from city and regional centre locations, with negative effects for those economies.

Increased development costs in middle and inner locations has also created a 'Missing Middle' cohort - a group of households who are not eligible for affordable housing assistance, but are also priced out of local home ownership markets. The current structure of Australian housing markets means that these workers are faced with a choice of living in poorer quality, insecure tenure rental housing, premium priced 'Build-To-Rent' (BTR) offerings or moving to outer suburbs to purchase a home.

This 'Missing Middle' cohort presents a significant opportunity to develop a housing offer that meets their needs as, in most urban areas, the rent paying potential of tenants is sufficient in order to cover the cost of construction and operation of a residential building.

On this page

- Murundaka Cohousing Community - an intentional community located in Heidelberg Heights, Melbourne. The co-operative is administered by Common Equity Housing Limited (CEHL) a registered Community Housing Organisation.

Cohousing is a community-led approach to housing that prioritises resident participation in design, preferencing smaller private spaces and generous shared spaces. Projects are collaboratively designed and governed to encourage connection and resilience.

Government support and housing co-operatives in Australia

Affordable housing in Australia is largely provided through the social housing system, made up of both public housing and the community housing sector. The original community housing program supported tenant involvement in housing management and at this time housing co-operatives were a separately funded stream of community housing. This led to the rental housing co-operative sector that exists in Australia today.

Co-operative Community Housing Organisations (CHOs) successfully support rental housing co-operatives around Australia. A member's income determines their eligibility to join the co-op and the rent that is set (generally 25% of income). Co-op members make up a broad and diverse community who have agency in the operation of their housing co-operative and their living environment. They rent like they own.

The Australian Co-operative Housing Alliance (ACHA) is a peak body for the registered CHOs delivering rental co-operative housing and offers support to the broader co-operative housing sector.

A significant and growing proportion of the community cannot afford to buy their own home, do not meet the income thresholds to be eligible for social housing, but still require support to access stable tenure rental housing.

There is an acute need for a new type of housing player in the modest profit or not for profit space that can provide for moderate income earners and 'Missing Middle' households, which also enables community involvement in the design, development and operation of the housing.

It is in this environment that limited equity housing co-operatives represent an exciting potential model, drawing upon lessons from the well-established sectors in continental Europe and North America.

Opportunities for community participation, community wealth building, as well as provision of economic opportunity through a mix of uses and paid roles within the community can provide immense community benefits.

How can we learn from these international models, while building a system from the ground up that responds to the specific financial, cultural and regulatory context of Australia?

From top

- Public infrastructure (tram depot) with air rights ground lease, Kalkbreite, Zurich
- Neighbourhood scale transformation on public land, Mehr Als Wohnen, Zurich
- Private land acquisition and existing building retrofit co-operative, Wogeno, Zurich

Zurich is a society where traditional ownership is not a cultural expectation. The success of the city's co-operative movement has been shaped by a combination of community-led initiatives, popular support, and favourable government policy. But co-operatives have also benefited from system-wide approaches to regulating rental housing and the financial infrastructure available to provide low-interest loans.

Access to public land
While the model can remove existing properties from the speculative market, co-operatives in Zurich continue to benefit from 'right of use' access to public land for new projects, supported by active municipal housing policies aligned with popular mandates (30 percent of co-operative housing is on city-owned plots). This includes a form of value capture on redeveloped brownfield sites-where the city acquires parcels as a 'tax' on rezoning and on-leases them to co-operatives-and in-fill strategies on underutilised land like parking lots.

Preferential Financing
Zurich co-operatives enjoy access to a supportive financial ecosystem with a range of preferential instruments that reduce overall development costs (and hence rents), assist with 'start-up' capital and bridging finance, and provide mortgage guarantees that lower equity requirements. These include a federal 'Revolving Fund' extending low-interest loans for land acquisition, a 'Solidarity Fund' managed by the national co-operative umbrella organisation, and low-interest financing from the pension fund of the City of Zurich and a dedicated bond-issuing institution backed by the national government. The municipality also purchases share capital in individual co-operatives.

Tenant Protections
The strong protections embedded in co-operative projects reflect Zurich's emphasis on supporting long-term tenure. Tenancies are usually open-ended, and can only be broken by landlords on narrowly prescribed grounds. Rents are moderated by 'second generation' controls that apply to all units, with the onus on landlords to justify increases due to higher costs or renovations. Co-operatives introduce additional mobility into this system by allowing individuals or families to change apartments without sacrificing the benefits of a length-of-tenure discount.

Broad societal support
The legal framework for co-operatives is outlined in the Civil Code and supported by Federal Housing Office regulations and a constitutional right to housing. With a 100-year history, the model is a long-established part of the housing system and administrative barriers to entry are relatively low. Meanwhile, broad community awareness and support means co-operatives can access a pool of member capital far in advance of site acquisition and planning approval (and without expectations that membership will necessarily lead to residence in a realised project).
Projects like Mehr Als Wohnen and Kalkbreite dispel the myth of co-operatives as a fringe phenomenon and demonstrate the ability to deliver large volumes of exceptional quality, perpetually affordable housing.

While the Zurich co-operative housing sector has been around since the early 20th century, there has been a recent renaissance in the model since the 1990s, with a new generation reinventing the traditional residential dormitory co-operative in the suburbs in favour of higher density, mixed use urban neighbourhoods with a significant quantity of active retail, commercial and communal space.

This tendency has been supported specifically by the City of Zurich who have allowed co-operatives to redevelopment to a higher height control on the condition that they undertake a design competition. This incentive has resulted in a significant increase in the standard of co-operative housing development and parallels the successes of the City of Sydney Design Excellence program, now deployed throughout New South Wales.

Clockwise from top

- Exterior street view of built proposal
- View of internal shared open space

The 2019 City of Sydney Alternative Housing Ideas finalist - A Third Way

In 2019, The City of Sydney commissioned the Alternative Housing Ideas Competition with a view to finding innovative solutions to the housing crisis, with a particular focus on ideas outside of the regulated, subsidised environment that limits the expansion of social and affordable housing.

The key reasons for the competition were to address the following challenges:

- The dominant investor model of housing development
- Lack of tenant protection in the private rental sector
- Limited provision of public housing by the State Government
- Loss of older affordable multiple residential stock in wealthy suburbs to mansionisation
- The City has been consistently unable to achieve its affordable housing targets through State Government investment or Community Housing Providers.

Seven winners were selected by an expert jury which addressed technology, design, financial and organisational innovation. These were then workshopped over a period of 4 months to test and develop these ideas.

The Third Way Housing submission aimed to articulate a vision for a prototype model of rental co-operative which drew upon the successes of the Zurich co-operative housing sector while being tailored to the specific legal, cultural and financial circumstances of the Australian context.

The Third Way model, was supported by the City of Sydney for its ability to address the shortage of housing for key workers and moderate income earners without the need for capital investment from government. Further, the model demonstrated a way to meet a range of social, environmental and economic objectives for the city without losing control of public land. This was to be facilitated through a long term, commercial ground lease.

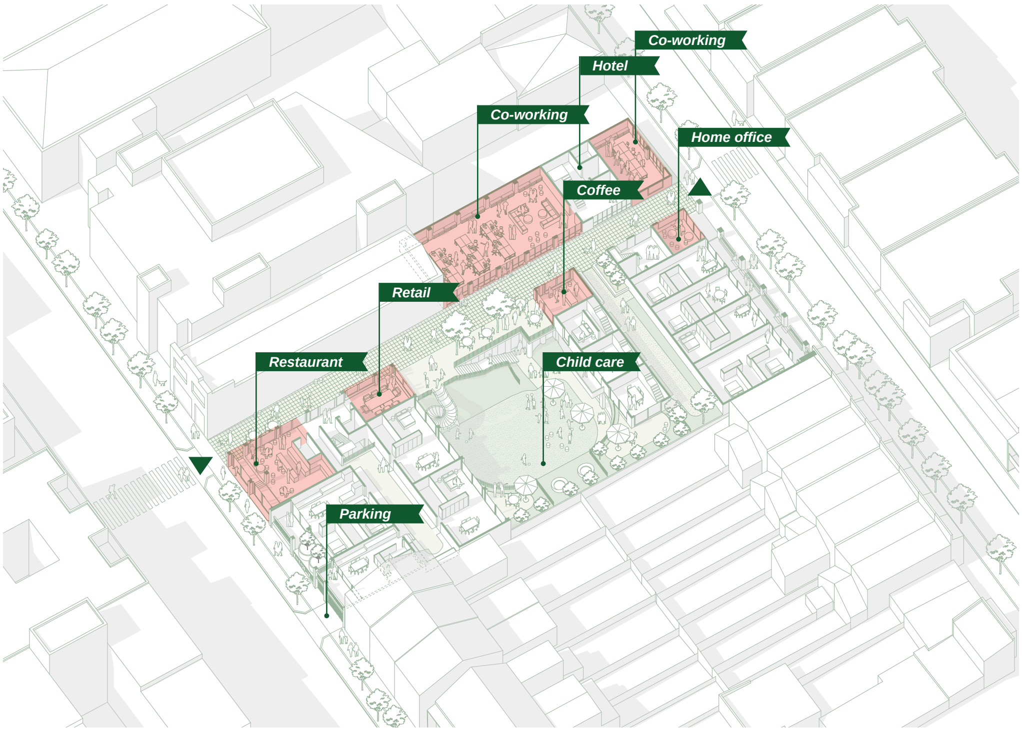
Through the Sustainable Sydney 2050 Strategy the City of Sydney aims to offer a wide range of housing options at a range of different price points, catering for the community at all stages of their life with affordable choices for families, intergenerational households, older people, students, single person and co-living households. We see co-operative rental housing to add an important missing element within the spectrum of housing options available to our diverse community.

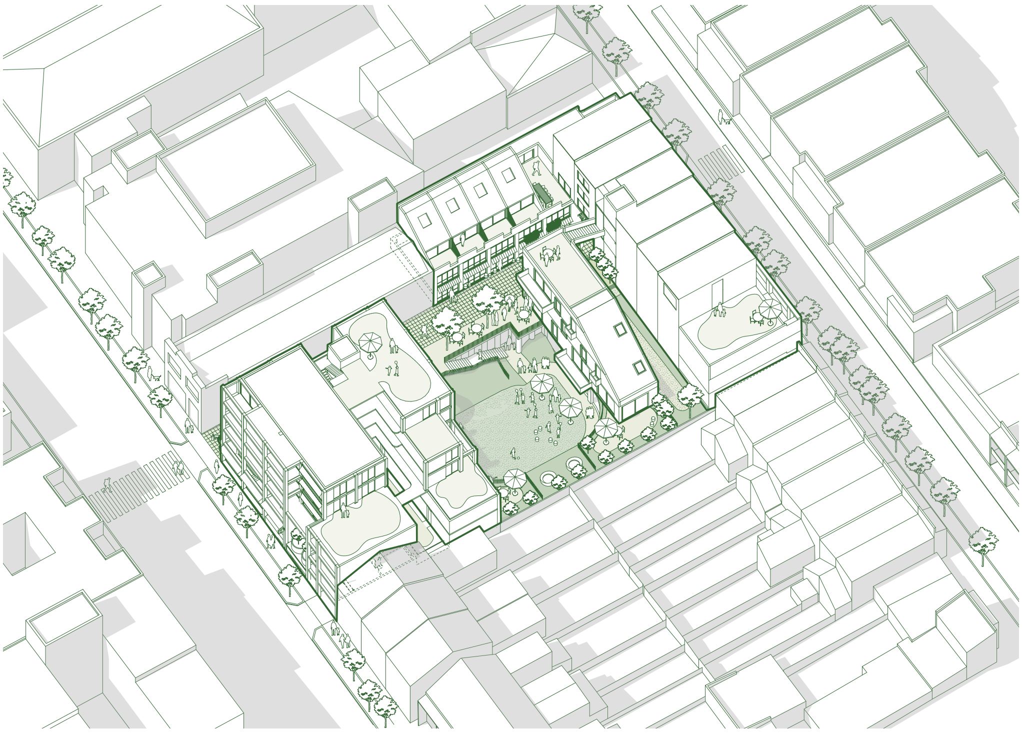
More specifically, the City of Sydney through the Housing for All program are continuing to explore opportunities to enable a prototype with a ground-lease over City of Sydney land, which could enable a prototype such as moderate-income co-operative rental housing, while retaining public land in public hands.

The City of Sydney continues to explore the setting aside of a series of underutilised public land holdings to prototype housing models that can generate affordability without dependence on the State or Federal Government investment.

For the updated 2023 study we adopted the key commercial structure and financial assumptions used in the Third Way 2019 submission. This became our base case scenario to review to review. Refer to Appendix 3 for key proportions, metrics and assumptions.

The key financial impact from the 2019 modelling indicated that with no capital investment from government, a 30% discount to market rent could be achieved in its first year of operation. The 2023 review indicates this is no longer possible.





Clockwise from top
- Diagram of ground level uses
- Diagram of complete building

In reviewing the financials of the 2019 modelling and proposition, our key areas of focus were updating the following in line with 2023 market realities:

- Debt covenant and cost assumptions
- Equity return assumptions
- Subsidy assumptions
- Construction cost escalation
- Rental market escalation
- Commercial structure

We adopted a 'debt finance' first approach focusing primarily on prevailing debt market metrics and engaged with Bank Australia and debt advisors Hyaline Finance for guidance. Our approach was to re-run the economics of the 2019 modelling and determine whether the operating entity would be in a position to pay off its equity and debt liabilities within a 'reasonable' time-frame and to this end adopted a 30 year investment phase target.

Secondly, we looked to ensure that the equity investor would receive a 'commercial' rate of return for their investment and targeted a 10% Internal Rate of Return target. We determined that investing Co-op member equity funds during the development phase was not commercially appropriate and assumed that all equity invested during this phase was via sophisticated and/or institutional impact investors. Co-op members equity was contributed at the commencement of the investment phase post completion of the build.

Finally, we sought to structure the commercials so that the operating entity would not be reliant on subsidies to be commercially viable. To this end, we assumed that the Co-op, while it could enjoy Not For Profit status, would not receive tax benefits from being a registered charity.

To illustrate the levers and changes over time we created two different financial scenarios:

Baseline (Scenario A)
Monthly residence charge commences at a full market rent level and is capped at 2% escalation per annum

Alternative (Scenario B)
Monthly residence charge commences at 90% of the market rent level and is indexed at 2% escalation per annum plus investment phase debt is financed by the National Housing Finance Investment Corporation (NHFIC), now Housing Australia.

Appendix 2 outlines the key assumptions and outcomes from the updated modelling on these scenarios.

In summary, the modelling indicated:

Total Development Cost (TDC)
The forecast TDC of the project increased by between \$3-4m from ~\$29m in 2019 to ~\$33m-\$34m in 2023.

Debt
The forecast amount of debt required to deliver the development increased by ~\$3m in Scenario A and ~\$1m in Scenario B. This was informed by funder guidance on minimum Debt Service Ratios (DSR) and Interest Coverage Ratios (ICR)

Equity
The forecast amount of institutional equity investment increased by ~\$3m in Scenario A and ~\$5.5m in Scenario B.

In both scenarios the Co-op was able to provide the equity investor an IRR of ~9% per annum or greater.

Ground Lease
Under Scenario A, the Co-op would not be able to afford to pay anything for the ground lease. So it would need to secure the ground lease on a peppercorn rental basis.

Under Scenario B, the Co-op would be able to afford a commercial ground lease for the land. It goes without saying that an inability to pay anything for access to land will severely curtail the ability of the Co-op to secure land in Scenario A. Scenario B presents a much more viable pathway.

Time
The ability of the Co-op to pay off its debt and equity investor liabilities within a 30 year period was achieved in Scenario A (where debt was repaid in Year 30 of investment phase and Equity was repaid in Year 22 of the investment phase.

However in Scenario B the impact of paying a commercial rate for the ground lease pushed the equity investor payback to Year 25 of the investment phase and debt in Year 30 remained at an Loan to Value Ratio of ~26%.

Above
- View of laneway and public space

Below
- Finance workshop October 2019, City of Sydney

The modelling assumes a liquidity event in Year 30 on an assumed capitalisation rate. However, we also assume that the initial ground lease term would be in the vicinity of 50 to 60 years, and the best outcome for the Co-op would be to renegotiate the length of the ground lease between 5-10 years prior to the end of the initial term.

Income
Co-op member income comes into the project in two ways:

1. A membership fee - an average of $38k in Scenario A and $47k in Scenario B.

2. A monthly residency charge - starting at an equivalent to market rent in Scenario A, and starting at a 10% discount to market rent in Scenario B (both with capped escalation at 2% p.a.).

The at cost nature of managing the Co-operative's revenue and expenses indicate that once the equity and debt investors are paid down or out, there exists additional 'headroom' revenue that the Co-operative is generating from member monthly residence charges.

This surplus income could be used for a number of purposes, for example:

- to reduce the ongoing monthly residence charges for members for the remainder of the ground lease term. Further increasing the delta between market rents and the cost of living in the co-op. For Scenario A this would occur between Years 25 to 30 of the investment phase. For Scenario B this would occur around Year 30. For context, an average $47,000 membership fee is analogous to a 4.9% 'deposit' on the median apartment price of $952,000 for Redfern as at September 2023 according to realestate.com.au
- to pay a return on resident equity
- to reimburse resident equity at the end of the lease term
- to offer subsidised rent to specific member cohorts
- to support development of other at cost housing co-operatives

It is important to note, that to make the project economics 'commercial' the solution proposed, is not an affordable housing solution by any statutory definition of affordable. Rather, this model offers housing that is affordable to 'missing middle' households with moderate incomes around $120,000 - $150,000 pa.

Appendix 2 shows a comparison of current NSW Quintile 3 moderate income households and the 2023 feasibility study assumed rents (as at July 2023).

As you can see, Scenario B gets close to meeting the 30% of household income threshold. Under Scenario B, where the residency charge commences at a 10% discount to market rents and increase yearly at a capped rate of 2%, it takes 11 years for the residency charge to be 25% less than market rent, assuming average annual rent escalation of 3.5%.

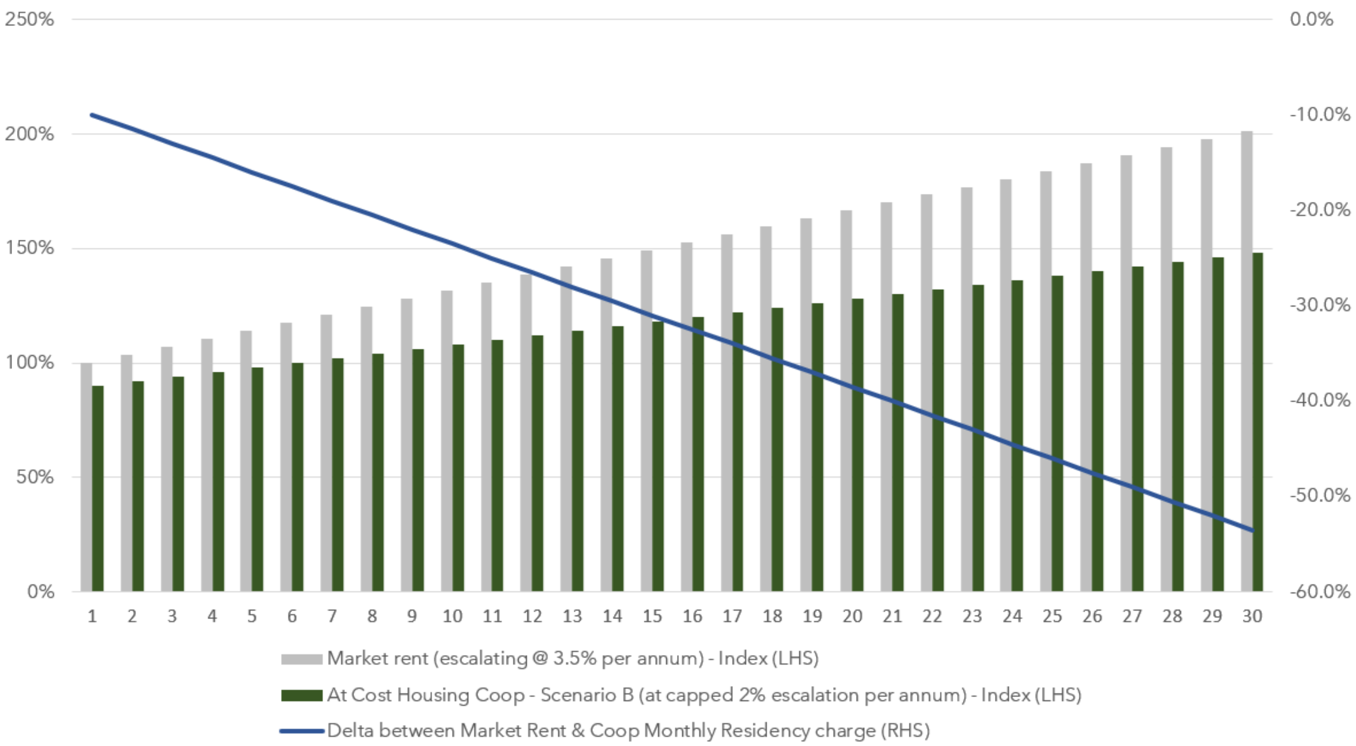
It's important to remember though, while these numbers don't meet the 30% of household income target in the immediate short term, over the medium to long term, the structure of the at cost housing co-operative will significantly reduce the cost of housing for its members versus the prevailing market rent for comparable accommodation.

Scenario A - Baseline
(Full Market Rent with 2% capped escalation and commercial debt)

- Debt repaid in Year 30
- Equity repaid in Year 22 of investment phase
- Equity IRR of 10.1%
- Can't afford commercial ground lease
- Year 25-30 headroom for discounted monthly residency charge
- $35,000 membership 'fee'

Scenario B - Alternative
(10% discount to market rent with 2% capped escalation and NHFIC debt)

- Debt not repaid in Year 30
- Equity repaid in Year 25 of investment phase
- Equity IRR of 9.3%
- ~$12m in ground lease repayments
- Year 30 headroom for discounted monthly residency charge
- $48,000 membership 'fee'



Above

- Chart of Market Rent vs. Scenario B assumptions

Challenges for a new generation of Housing Co-operatives:

1. Commercial structure
2. Access to land
3. Institutional capital investment
4. Low margin & long term debt funding
5. Operational Management
6. Level and mode of engagement
7. Existing Agreement Structures
8. Supporting co-operative housing through planning

The outcome of our 2023 review of the 'at cost' housing co-operative, based on the financial market assumptions made and indicative location, is that there is a viable pathway to realise this project.

Each option has it's own challenges, whether Scenario A which requires a peppercorn ground lease or Scenario B that requires access to cheaper debt to enable a commercial lease.

Critically, both scenarios also assume that an impact equity investor could be identified to support the Co-op by investing equity at a near 10% IRR p.a. over 34 years.

1. Commercial Structure

The evolution of thinking around commercial structure and governance is a critical component of developing this model if it is to become scalable. How the model is developed to de-risk it from a capital investment perspective will be particularly critical.

Regardless of the financial feasibility of the project, equity and debt investors will need to understand and be comfortable with the directors of the project entities, what the directors' experience is in development and operations, what guarantees are being provided, what is the balance sheet position of the entity and ultimately who is the sponsor.

We have assumed the commercial structure for this case study includes the following features:

Operational Company (*Op Co - The Co-op*)

- Established with the same amount of members as units eg. 44
- Each member has a vote on the management committee. All decisions are made via the management committee.
- Members equity is contributed into this entity and members do not guarantee any debt.
- Borrows from Debt funder to pay out the construction loan and debts of the Development Company (Dev Co) at completion of the build.
- Enters into market lease agreements with commercial tenants
- Annual reviews of monthly Residency Charge
- Annual valuations conducted on rental to underpin/set ongoing Residency Charge for members and facilitate entry and exit of members.
- Members have a say on incoming member selection

Land Company (*Land Co*)

- Controlled via the landowner who grants the Op Co a ground lease. So ownership is not transferred.
- The land owner provides security rights to the Debt funder for construction finance and appoints a Development Company (Dev Co) via a Development Management Agreement (DMA) or similar to deliver the building to the Op Co.

Development Company (*Dev Co*)

- A Special Purpose Vehicle (SPV) that is established to contract with a builder and obtain construction funding on behalf of the Op Co.

2. Access to Land

The land owner in this context becomes critical as they remain project partners in the long term. The land owner is critical not only because they provide long term access to their land for the housing co-op over time, but must be willing to assist to de-risk the project from a debt perspective during the development phase by providing assignable and unencumbered security to the land to the debt funder as part of the ground lease arrangement.

Without this, the housing co-op will need to source a significantly higher amount of equity capital to prosecute the project. Without access to the security of the land for mortgage purposes, the debt investor either will not invest or significantly reduce the amount they will lend against the project to reflect the risk of not having a secured position.

Likely sources for land access include state and local government and faith-based organisations. In some locations, major local employers may also have suitable land and be interested in generating housing options for local workers. To underpin project viability, the Ground lease term required will be at least 30 years, and ideally longer.

Ground leases are currently relatively rare in Australia for residential development, and usually used to enable use of land owned by a public entity for a peppercorn rent. Typical term approaches include issuing 30, 50 or 99 year leases or leases in perpetuity. Organisations also have the option of extending or renewing a lease term.

In Victoria, the Local Government Act limits the lease term Council's can offer to a maximum of 50 years, so Victorian Councils would need to transfer the land to another entity if they intended to offer a longer lease or enable a lease renewal past 50 years. There's no legal restriction on lease terms for other organisations, and indeed examples exist locally within the Victorian context for faith based and private land leases exceeding 50 years, including some Build to Rent providers using 60 year leases on both faith based and private land holdings. The key determinant of this lease period is a building management perspective of major items for renewal, including building fabric such as lifts and mechanical systems. A 50-60 year time horizon accounts for a major renewal event in year 25-30, and a second life for the asset.

Establishing a ground lease rather than purchasing land means that consideration of available options for a terminating ground lease is required. Options will be dependent on the original length of ground lease and whether there is ability to renew the lease. At the end of the lease the presumption is typically that the constructed asset would revert to the ownership of the land owner, although often a first right of refusal is employed to give the lessee the right to continue to operate the asset. In the Australian context of commercial leasing, the latter is very rare, with the exception of Alpine Areas (crown land leases) and within the ACT. A key focus will be the upkeep or state of the asset at this lease end, ensuring the landowner is not burdened with an asset that requires significant investment.

Terminating ground lease considerations:

- Options to renew or extend, ensuring clear timelines for decision making about renewal to inform Residency Charge setting and enable management of residency rights.
- Treatment of capital improvements on the land - will they be removed or handed over to the land owner.
- Treatment of resident equity - is equity reimbursed and , if so, will any escalation be applied. Inability to reimburse member equity at the end of a ground lease term may be a significant disincentive for prospective co-op members.

Like most innovative or affordable housing models, community-led housing benefits greatly from preferential access to land. Local or state government can enable these models by preferencing community-led housing when they are looking to provide land for sale or long-term ground lease.

Community-led housing projects benefit from Expression of Interest processes that privilege projects that provide affordability, sustainability or community benefits.

While discounted land would enable community-led housing to provide greater levels of affordability for its residents, community-led housing proponents can often pay commercial terms for land purchase or ground lease.

Community-led housing projects benefit greatly from access to ground leases or deferred settlement on the purchase of land. Long-term ground lease enables government to maintain revenue over time and retain ownership of the land with significant intergenerational equity benefits.

Preferential access to land could also be provided for sale or ground lease (at a subsidised or commercial rate) by government or private master developers as part of an urban renewal precinct, with community-led housing acting as an important catalyst site that brings life to a new neighbourhood. This method, used extensively in the Netherlands and Germany can bring forward precinct development and increase the attractiveness and value of remaining development parcels.

It is reccommended that community-led housing is preferenced through Expression of Interest processes when governments are providing land for sale or long-term ground lease.

3. Institutional Capital Investment

The financial capacity and capability of project sponsor looms as potentially the key factor that will be the determinant of whether this proposition evolves with scale or not. With no liquidity event to pay down debt, gearing during the development and investment phase will depend on the financial strength , capability and experience of the project sponsor. If it is a new entity it will have no experience and track record so the character, capacity and capability of the development and operational team behind the structure become even more important.

On the equity capital site, it remains to be seen whether a ~10% IRR per annum for 34 years is an attractive enough return for equity investor's to support this proposition.

Moreover, the actual equity investment instrument would need careful structuring in conjunction with the debt investor. If the returns to the equity investor are structured to look like a debt instrument (i.e. a guaranteed coupon) then it is most likely that the cost of this equity capital funding will be included in the banks debt gearing calculations and will significantly reduce the amount of bank debt the bank lends. Potentially to the point where the proposition becomes unviable.

4. Low margin & long term debt funding

Scenario B illustrates the impact of cheaper debt on during the investment phase. Over this length of time (30 years) the cheaper debt allows the Co-op to reduce the ongoing monthly Residency fees and also pay the land owner a commercial ground lease payment. Scenario B is clearly a superior pathway to pursue as it is a more attractive proposition for land owners and potential co-operative members alike.

Currently the NHFIC (now Housing Australia) mandate is to support registered Community Housing Organisations (CHOs) only, and this mandate conflicts with the intended purpose of this entity.

However, are today's middle income households (who are locked out of home ownership) tomorrow's low and moderate income households, that will sit on housing registers for years waiting for the proportionally fewer affordable and social housing units available in the system?

5. Operational Management

In the proposed model, the Co-op is the Operational manager of the site and building, borrowing required debt funding, taking on the functions usually managed by an Owners Corporation, and setting the Residency Charge. This requires the Co-op to have robust and effective governance in place.

The Co-op formation process will need to attract interested members and work through establishment of relevant Co-op rules and policies that enshrine the connection between Co-op membership and residency rights and set out the decision making powers and processes of the Co-op and its members.

A dedicated Housing Co-op 'resource organisation' would make the Co-op formation process simpler and more effective, as it could act as a 'one-stop shop' to attract prospective members, and support them through the formation process.

In the absence of a dedicated Housing Co-op resource organisation, the Business Council of Co-op and Mutual (BCCM) has a range of relevant co-op formation resources available to BCCM members and co-op development support may be contracted from BCCM members (especially specialist co-op business and legal advice) or local Common Equity orgs (eg: CE NSW, CEHL). Resources to support a communications and marketing campaign to attract suitable members will also be required.

6. Level and mode of engagement

Part of developing the Co-op rules includes defining what 'active membership' means for members of this co-op. The Co-op structure allows each Co-op to define the extent of minimum active membership requirements, provided those activities are required to deliver the Co-op purpose. Under Co-op law, a co-op membership can be cancelled if a member has been inactive, so it's very important that minimum active membership requirements are clearly articulated and understood.

For this model, active membership requirements will be focussed on participation in co-op governance to ensure the co-ops has adequate capacity to oversee outsourcing of required building management and tenancy tasks, rather than requiring Co-op members to deliver those tasks directly. Minimum active membership requirements will include:

- Co-op decision-making - setting Residency Charge, function of commercial and shared spaces, co-op policy objectives, supporting social and community activity, reviewing active membership requirements
- Member induction and training
- Outsourcing required services and oversee delivery contracts
- New member recruitment and onboarding

Co-ops regularly review and revise active membership requirements so the Co-op (or new Co-ops under this model) could extend active membership requirements to include building management and tenancy tasks, if members wished. However, as operational tasks may be more efficiently delivered by organisations with specific skills and capacity, the Co-op may elect to outsource those tasks to those with the skills and systems, rather than deliver them internally, as they require significant member time and capacity building.

Australian and international Co-op experience suggests the capacity for Co-ops to deliver 'hands on' tasks can vary significantly over time and their delivery can become a source of internal tension, especially when member capacity is low. Ensuring that development and Co-op budgeting embed capacity for outsourced service delivery means that the Co-op has viable options to determine a level of active membership that reflects Co-op capacity at that time.

Australian and international Co-op experience also suggests that active member requirements for engagement in 'Co-op life' need to reflect what the Co-op needs to function and should allow for a range of ways members can contribute and participate, so member interactions are positive and ideally enjoyable, rather than onerous.

It's important to acknowledge that ongoing residency is tied to Co-op membership, so setting active membership requirements that are difficult or unpleasant to meet threatens Co-op members' security of tenure. Tasks and activities can be distributed according to skills, preferences, and through succession planning and skill acquisition. Participation in Co-op management builds diverse skills and are highly transferable to many other areas of life including professional development.
The Co-op sets a Residency Charge members are required to pay on a regular basis. The fee needs to provide adequate funds for:

- Residency (tenancy) management
- Building management - commercial tenants, shared spaces, collective services
- Short and long term building maintenance, including upgrades and building replacement
- Co-op function - member attraction and induction, governance, compliance

The Co-op may also wish to decide whether the Residency Charge includes:

- Contribution to future Co-op establishment
- Return of some or all members equity at end of membership or at end of ground lease

7. Existing Agreement Structures

Ongoing residency is contingent on ongoing Co-op membership, so the legal framework for setting out residency rights need to reflect the Co-op membership requirements set out by the Co-op.

Standard RTA leases are unlikely to be a useful tool to manage residency rights in this model. Approaches that enable a 'licence to occupy' approach are required, so residency agreements similar to Defence Housing Resident agreements provide more useful tools to manage residency rights and obligations.

Dedicated legal advice will be required to develop a resident agreement that can support the expectation of secure ongoing tenure provided residency and Co-op membership requirements are met, and can allow residency rights to be legally extinguished when requirements are not met.

8. Supporting Co-operative housing through planning

Community-led housing, an umbrella term which includes co-operative housing, provides many benefits including greater affordability, tailored homes to respond to complex needs, higher levels of community resilience and social capital and consistently high sustainability outcomes. There are several ways in which community-led housing can be supported through planning mechanisms and access to land.

Planning certainty

In jurisdictions such as Victoria, a discretionary planning system creates planning uncertainty. This creates optimal conditions for increased speculation, which inflates land prices and delays the delivery of housing supply. By contrast, density controls with height and envelope requirements establish greater certainty for councils, communities, and the development industry regarding expected planning and design outcomes. Increased certainty reduces speculation by stabilising the market, reducing inflation in the value of development sites and results in more permits directly leading to the supply of homes. Community-led housing, like all high-quality modest development, benefits from increased planning certainty, given the proponent's low threshold for planning risk.

Definition of community-led housing

Introducing a definition for community-led housing within the planning scheme would enable it to be identified, understood and incentivised through the planning process, in a similar way to how affordable housing is currently defined and incentivised. In the NSW context, a number of diverse housing models have been defined, such as New Generation Boarding Houses, Group Homes and Co-Living, and receive preferential treatment in the planning scheme.

Such as definition could include:

- Commitment via legal agreement to secure affordability through instruments such as rent stabilisation
- Innovation in the design and function of indoor and outdoor shared community space
- Evidence of resident participation in the design of project
- Evidence of resident contribution to the financing of project
- A formal commitment to the ongoing governance and operation of the project by residents
- Commitment to fossil fuel free building operation and minimum NatHers rating ‘above minimum standard’ sustainability commitment
- Commitment to decoupling parking from individual dwelling titles (where relevant), creating greater flexibility in the conversion of parking, a reduction in parking required and supported by high levels of bicycle parking and provision for e and e-cargo bikes.

Incentivisation of community-led housing through the planning scheme

With community-led housing defined, there is the potential to incentivise it through the planning scheme, reducing planning risk and giving this form of housing a head start from market-led housing, helping these projects succeed in the competition for sites.

Such planning incentives could include:

- Access to a fast-tracked planning approval process tied to skilled independent design review
- Access to modest density or height bonuses
- Removal of third-party appeal rights where evidence of community engagement is provided prior to lodgement
- Reduction of developer contributions or rate holidays where a publicly accessible facility is provided within the development
- Reduction in parking requirements

Recommendations

- Enable community-led housing and reduce speculation by creating greater certainty in the planning system through fixing density and building envelope controls.
- Create a definition of community-led housing to enable these models to be incentivised through the planning scheme. Incentives could include density or height bonuses, fast-tracked planning processes, or removal of third-party appeal rights, developer contributions, rates or parking requirements.

Opportunities for a new generation of Housing Co-operatives:

1. Market size and scalability

2. Pioneer site on faith-based or local government land

3. Pioneer site within a renewal area or masterplan

4. Self Determination and Sector Growth and Support

5. Co-ops and Mutuals network

6. Provision of diverse housing

Opportunities for a new generation of Housing Co-operatives

1. **Market size and scalability**

   The macro trends support a Housing Co-operative proposition in the short to medium term becoming a form of housing many Australians will consider. The size of the potential market and potential for scalability could be attractive for institutional investors because of the depth of market and mid-scale size of projects (say 30-50 homes) in inner city, middle ring and regional locations.

2. **Pioneer site on faith-based or local or state government or local business land**

   This model offers the opportunity for local, state or federal governments, faith based organisations and businesses and employer groups and opportunity to impactfully use of their land, without having to sell it off permanently. This overcomes a key current barrier to land owners deciding to contribute to new more affordable housing solutions.

   For instance, some of the authors of this report received a Lord Mayors Charitable Foundation grant to conduct an affordable housing feasibility on a site in Preston for a local church. The funding allowed for the preparation of a vision, feasibility design and study. A key barrier to most faith-based organisations from developing is the presence of significant heritage assets which preclude a higher intensity of development.

   In this instance, a large warehouse and land holding within an area which has been rezoned for higher density created a significant opportunity for the development of an integrated facility with housing in the airspace above the church site. The development enables the reconstruction of a purpose built church and community facilities with a significant 5 level housing structure above.

   This feasibility was prepared as a ground lease moderate income rental housing pilot, however due to the availability of favourable capital grants through Homes Victoria, in conjunction to debt finance through NHFIC, the project proceeded with a Community Housing Provider to deliver social and affordable homes.

   The key takeaways from this project include:

- The value of a modest capital grant in facilitating faith-based organisational uptake of opportunities for redevelopment with an affordable housing component.
- The importance of a model process to establish a shared vision across a multi-tiered governance structure including leadership teams, board members, and portfolio trust administrators.
- The inability for faith-based organisations to forfeit their assets.
- The need to secure the financial sustainability of the participant faith-based organisation, including their critical community outreach mission.
- The importance of factoring in the development costs of the faith-based organisation's new facilities in determining the feasibility of affordable housing.
- The feasibility impact of relocation costs during the 18-month demolition construction phase for the faith-based organisation.
- The opportunity for a more vertically integrated approach to housing and support services provided by the faith-based organisation, in enabling socially transformative outcomes beyond shelter.

3. **Pioneer site within a renewal area or masterplan**

   In the context of large scale masterplans, which may take 10 or more years to deliver, private developers often look for strategies of investment diversification or divestment in order to support the overall project being delivered in a timely manner. This creates significant opportunity for collaborative housing projects to gain a foothold in large scale precinct projects, where competition for high cost land requires leadership from a sophisticated developer or land manager.

   In the context of the Public Housing Renewal Program through the Victorian Government, MAB corporation were successful in their bid for a large site in Preston, now referred to as Preston Crossing. This project comprised a mix of replacement social housing (with a 10% increase on the original dwelling numbers) in addition to private apartments and townhouses. Acknowledging the potential 'tender enhancement' of bringing diverse housing into the fold, MAB sought to allocate a plot for Nightingale Housing to deliver 52 dwellings in addition to ground floor commercial facilities on a significant corner plot which marked a gateway to the precinct. While the balance of the project took a significant amount of time to secure presales in a challenging market, the Nightingale dwellings were successfully balloted within a single weekend.

The building is now nearing completion and has brought forward the overall site development program by derisking a significant stage of the project. In this case the demand aggregation of Nightingale, with its ready made wait list was an attracting element for MAB corporation, who were able to joint venture in the development and see greater value than a straight sale. This project represents a significant first step towards greater acknowledgement of the value of collaborative housing projects as pioneers within a masterplan setting, which is a method that has increasingly been used as a tactic for early activation by progressive city councils in the Netherlands and Germany.

4. Self Determination and Sector Growth and Support

A 'Missing Middle' housing class would offer the additional benefits of Co-op housing, outlined in International and Australian research. They include:

Social capital
Residents in co-operative housing in many jurisdictions report strong social networks and support, and stronger friendships with their neighbours. This is the result of:

- A sense of empowerment through participation in the life and management of the co-operative.
- The confidence, skills, education and increased political awareness that results from becoming more involved in the housing movement
- The strengthening of communities through encouraging active engagement with management and the activities of the co-operative community, and through providing a stable base from which to connect to wider social networks and education, health and recreational opportunities
- The development of social networks due to the participatory nature of tenant-led organisations and the opportunities to manage aspects of the Co- operative's functions,
- Affirming cultural diversity and inclusion as a valued part of community life.

Housing quality and stability
There is very widespread reporting of satisfaction with housing outcomes amongst residents in co-operatives, including the cost, quality, and stability of housing. This is the result of:

- The development of a sense of place and being able to put down roots, due to having a secure home. The flow-on effects include a sense of belonging, stable schooling, employment and involvement in the local community
- Higher design values and concern for wider environmental and social outcomes.
- A sense of ownership that resonates strongly with the cultural and social power of the idea of homeownership as embodied by the 'Australian Dream'.

Growing a new 'Missing Middle' Co-op housing class
While Housing Co-operatives are not a mainstream option in Australia, Co-operative enterprise have been strong and effective contributors to many sectors, especially agriculture, health insurance and credit unions. The legal framework governing Co-operatives is well developed, with uniform legislation in place across Australia that enshrines the values of self-help, self-responsibility, democracy, equality, equity, solidarity and 7 Co-operative Principles:

1. Voluntary and Open Membership.
2. Democratic Member Control.
3. Members' Economic Participation.
4. Autonomy and Independence.
5. Education, Training and Information.
6. Co-operation among Co-operatives.
7. Concern for Community.

These underpinning values and principles, especially the principles of Co-operation among Co-operatives and Concern for Community are strong motivators for a pilot KeyWorker housing co-op to use the skills, expertise and resources it creates to invest in establishing the next Local Worker Housing Co-op, and the next.

The co-op framework provides a strong foundation to create a self-sustaining 'Missing Middle' housing co-op 'eco-system', capable of scaling up to new housing class that can meet a growing need.

Role of a Resource Co-op
Although there is growing interest from households keen to be involved in delivering and managing their own housing, Housing Co-ops are not a mainstream housing option in Australia.

This means the resources available to groups looking to establish co-op, cohousing or other community-led housing outcomes are very limited. Without access to significant skill and expertise both in residential development and in co-op establishment and operation, new groups are often unable to overcome the barriers to establishment and often flounder.

Internationally there are many examples of resources and institutional settings that are designed to support the formation of co-op and community-led housing groups and provide access to appropriate expertise and advice to enable successful establishment and operation. Many of these resources are provided or funded by the Government, as part of strategies to increase the supply of diverse and affordable housing options.
Public investment in the creation of a Resource Co-op to support the creation of 'Missing Middle' Housing Co-ops would provide a vehicle to:

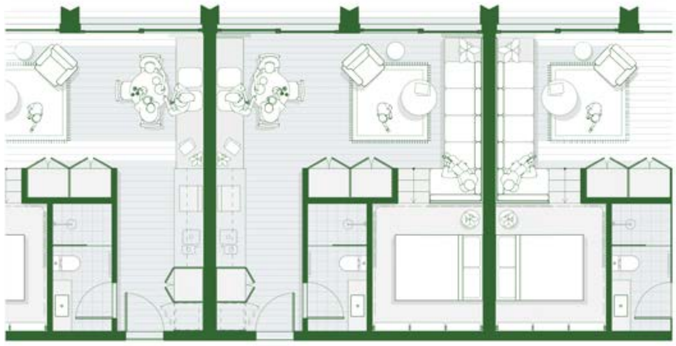
- Develop, hold and share required expertise, experience and resources to support co-op formation
- Identify and connect potential co-op members to relevant housing co-ops
- Support effective co-op governance function
- Create a pipeline of suitable land for development
- Provide residential development expertise and advice to housing co-op
- Hold and manage land and buildings on behalf investors and/or government
- Collect and/or co-ordinate investment and resources across housing co-ops

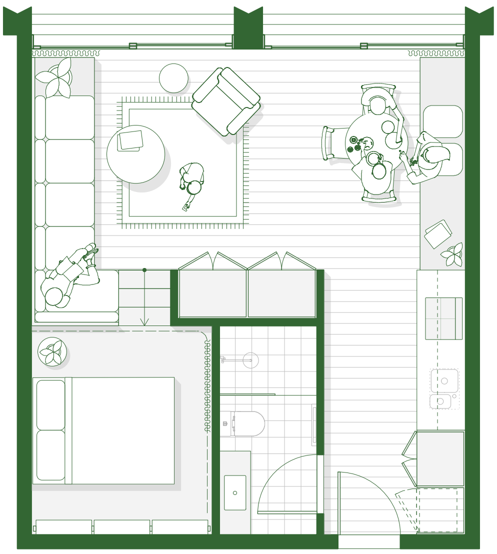
Establishing a resource Co-op would significantly speed up the ability to move from a pilot project to a new 'at-scale' housing class.

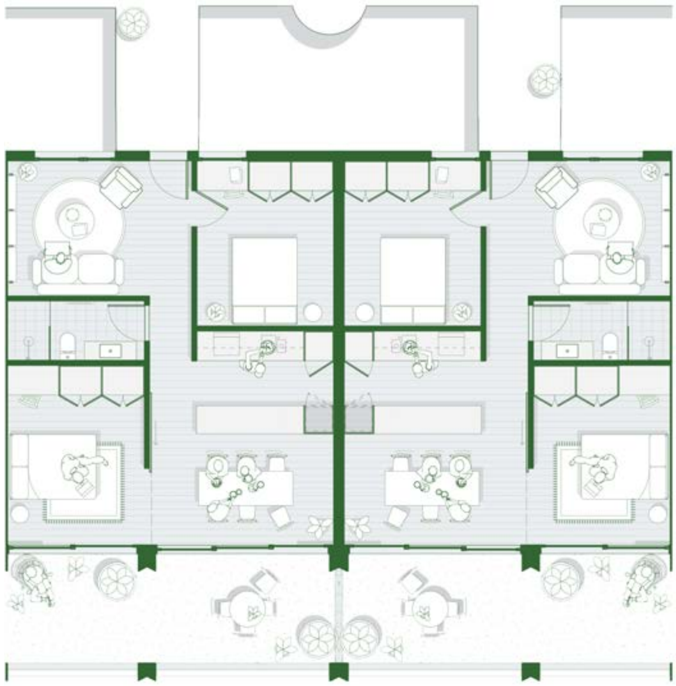
Table 2 below outlines international examples of community-led housing resources:

Table 2

Organisation	Functions	Country	Supported by
Mitthauser Syndikat	• Provides advice to self-organized house projects interested in the Syndikat's model • Invests in projects so that they can be taken off the real estate market • Helps with know-how of project financing • Initiates new projects	Germany	1100 members, including house associations, and deposits of some 500,000 euros made by members
Community Led housing	Works with: • Groups at an early stage, offering advice, mentoring, and project management. • Boroughs and others to help create opportunities for community led housing. • Developers and Housing Associations to enable community led housing.	UK	The Mayor of London and several boroughs
Roost	Operates as a secondary co-op that holds property managed by a management co-op. The secondary co-op provides maintenance services and advice and access to finance	UK	• Member co-ops • Investors
Radical Routes	Operates as a Secondary Co-operative. members are: • Co-ops who primarily benefits and contribute to the organisation • Investors who support our ethical loan fund	UK	• Member co-ops (35+) • Investors







Clockwise from above

- Livable studio for a couple (42m²), Andy Fergus
- Work from home family apartment (70m²), Andy Fergus
- Apartment arrangment, Andy Fergus

5. Co-ops and Mutuals network

The Business Council of Co-operatives and Mutuals (BCCM) has long advocated that Australia needs a 'third pillar' in housing. BCCM's support of this study is reflective of its view that Housing co-operatives, housing that is owned and democratically controlled by groups of residents, are the third pillar in housing that can build a better home for all Australians.

The BCCM has called on all political parties to work with the sector to develop equity and share equity models of co-operatives housing that can give more Australians access to secure and affordable housing. We need to look to proven, innovative solutions from around the world. Equity and shared equity co-op housing models are proven models that, in some countries, make up nearly a quarter of all housing stock. These shared ownership models can be more affordable, while delivering the security of tenure outcomes as traditional private ownership, and superior social outcomes from a vibrant resident community

6. Provision of diverse housing

The greater residential control in co-operative rental housing allows for a diverse range of living configurations responsive to complex needs. Freedom from off the plan sales allows for experimentation with more livable apartments for more diverse living arrangements, such as those developed for the 2019 City of Sydney Alternative Housing Ideas Competition by Third Way Housing (refer to page 34).

This page

- Members of Sydney CoHousing

Sydney CoHousing

Sydney Cohousing Incorporated is an association of people interested in cohousing.

After considerable deliberation we have decided to focus on one project which we are calling the Sydney Ecovillage (working title only). The Sydney Ecovillage has three core principles at the heart of its vision: the regeneration of resources by cohousing community members, a community at its core, and affordability (in the general meaning - i.e. something that is affordable which has the 'missing middle' as its focus). The project would be in an inner city location, ideally in the City of Sydney on local government land and/or NSW government land as our first preferences. It could act as a local community hub depending on how the communal and commercial spaces were able to be accessed and able to be used by cohousing residents as well as others.

Over several years our vision sessions have included a mixed tenure model which is to say we wanted to include people's preferences for ownership, long-term rental and shared equity but we also recognised the significant complexity that having various tenures in the one project might introduce. Over time, we have focussed more on a long-term rental option. Many of our members don't want the financial stress of a mortgage either because they are too old to obtain a mortgage or because their lifestyle and life choices mean they would rather dedicate energy to causes or social efforts they believe in. They do have some life savings, typically between $50,000 and $150,000, an amount which, when combined with a person over a certain age, is not usually enough to secure a deposit for a loan for property in inner Sydney. Some of our members do not have children and so the need for an inheritance to hand down is not existent for some. Others are single parents with part-time care. In fact, a survey we put to new members when they join shows that of the two options: a) purchasing a dwelling in a cohousing property or b) acquiring rights to reside on a 'shares basis', were equal. Around 65% of respondents want to own, and 63% want a share that gives a right to reside or something similar. We have pursued the second option because it's harder and we think it has more opportunity to 'break the mould' of how housing is delivered in this (expensive) part of the world.

One of our challenges as a group of non-professional volunteers is that we can easily be portrayed as dreamers. Yes, we are, and unapologetically so. However, what we lack is legitimacy when it comes to having the 'serious, big table' conversations with town planners, and CFOs or the banks. We know they are being polite when they hear us out because we don't necessarily have the sophisticated language or the professional expertise to provide a feasible solution that serves our needs for long-term security for a wider range of people than social and (capital A affordable) housing offers. It's actually not in many professional's interests to help us out - banks, councils, others. The status quo works for many. So we understand that we're railing against the machine with our vision. Our vision does not necessarily address the huge numbers of housing required. But it does go a long way to the quality of life experienced in the housing we will live in. We want a diverse community of people - people with an alignment of values but a range of incomes (including high-income earners), a range of lived experience, sexuality, ethnicity, and definitions of 'family' including people who chose to live a single life. We want to provide a place of welcome to all.

The opportunity to participate in this feasibility work was a learning curve for us. There was a sense at times of being 'behind the 8 ball' in that we were the least educated people in the room and sometimes (we were very mindful that) conversations had to slow down to our speed.

There were also a mix of us in this grant and, perhaps in the initial stages, there was a jumble of expected outcomes and a jumble of what we were actually trying to achieve. The Third Way team who had put together a proposal for the 2019 City of Sydney Alternative Housing Challenge, were looking to follow-up their work on the Zurich model in 2019 and after. Sydney Cohousing just wanted something that got us closer to the reality of a project because we knew from our many conversations with a CHP and council that not having a model left the conversation dead in the water. Others who joined this Bunya grant had a deep understanding of the co-operative space both in Australia and overseas and could see that changing one early input totally locked out other options down the line (Nicola Foxworthy was especially valuable in this respect). That kind of insight was instructive to us as Sydney Cohousing insofar as it highlighted that having clarity of vision and 'first principles' can determine many other decisions later, in a positive way. Our group's cohousing vision has to be better thought through as it guides everything else.

We would like to express our deep thanks to the Business Council of Co-operatives and Mutuals for the opportunity this Bunya grant provided and to the team who worked on teasing out a model. It was a serious first step to the feasibility of a cohousing co-operative in the City of Sydney that does not depend on a Community Housing Provider (CHP) to be a partner or stakeholder nor does it depend on a peppercorn lease as a key input. It also makes clear the advocacy piece required around access to NHFIC funding and alternative delivery of housing. It's exciting and we are proud of the role our 'lay (member-focussed) questions' may have added to the final result.

CoHousing Australia

Considering that many cities and towns are needing to curb sprawl and consolidate housing within existing urban and suburban districts it is important to develop models that facilitate resident agency and participation. Within the existing housing development paradigm there is an absence of agency in the multi-unit development sector. It is important to remedy this in order for households and communities to design for ageing, for environmental considerations and operational efficiency, for social connectivity and resilience.

Designing for community is central to the cohousing model but it is also essential for creating any well connected and convivial community-oriented space. In co-located housing with contractualised governance it is an important ingredient in building the social capital necessary to create a high-functioning community with operational capacity.

The socio-spatial elements central to the cohousing model include a commonhouse (where the entire community can gather simultaneously), parking to the periphery and a highly pedestrianised interior, guestrooms (prevents duplication of 'spare' bedroom across every household), shared activity spaces to consolidate duplication: laundries, co-working, workshop and studio. Shared spaces facilitate community interaction and are instrumental in fostering a sense of belonging, building trust and social capital, alleviating pervasive experience of isolation and loneliness. Shared spaces, and the deliberate and spontaneous interactions they afford are also central to create high-functioning operational management practices.

The benefit of tapping into the cohousing model and growing community in Australia is a latent cohort of people who are interested in living in a connected, intergenerational, diverse community. This is the perfect cohort to draw from inorder to establish pilot projects and demonstrate the benefits of the financial innovation, best practice social-spatial design, co-operative governance and asset management. Those interested in cohousing are focused first and foremost on socially sophisticated solutions that include addressing the intersectional challenges of environmental design performance and lifestyle choices, affordability and social capital, community connection, belonging and wellbeing. Making the cohousing model more visible and readily available will help shift cultural expectations around what the Australian dream means as we seek to address challenges and find new ways to live better together.

Appendix 1 - NSW Quintile 3 Income (Moderate income household)

	July 2023	July 2024 (6% esc.)	July 2025 (3.5% esc.)	July 2026 (3.5% esc.)	July 2027 (3.5% esc.)
Weekly Rent					
Studio	$533	$21,480	$27,733	studio	$6,253
One Bedroom	$656	$32,220	$34,093	1 bed	$1,873
Two Bedroom	$879	$45,120	$61,100	3 bed	$15,980
Three Bedroom	$1,175				
Annunal Rent					
Studio	$27,733				
One Bedroom	$34,093				
Two Bedroom	$45,686				
Three Bedroom	$61,100				

	Annual income	Max housing cost @ 30% of income	Redfern annual rent	Unit type	Delta ($)	Rent as % of annual income	Delta above 30%	Delta to BtR
Scenario A - Baseline								
Single Adult	$71,600	$21,480	$27,733	studio	$6,253	39%	9%	
			$34,093	1 bed	$12,613	48%	18%	
Couple w no dependants	$107,400	$32,220	$34,093	1 bed	$1,873	32%	2%	
			$45,686	2 bed	$13,466	43%	13%	
Family (1-2 parents) + 2 dependants	$150,400	$45,120	$61,100	3 bed	$15,980	41%	11%	
Scenario B - Baseline								
Single Adult	$71,600	$21,480	$24,960	studio	$3,480	35%	5%	-10%
			$30,683	1 bed	$9,203	43%	13%	-12%
Couple w no dependants	$107,400	$32,220	$30,683	1 bed	-$1,537	29%	-1%	-8%
			$41,117	2 bed	$8,897	38%	8%	-11%
Family (1-2 parents) + 2 dependants	$150,400	$45,120	$54,990	3 bed	$9,870	37%	7%	-10%
Build to Rent @ +15% Premium to Market								
Single Adult	$71,600	$21,480	$31,893	studio	$10,413	45%	15%	
			$39,206	1 bed	$17,726	55%	25%	
Couple w no dependants	$107,400	$32,220	$39,206	1 bed	$6,986	37%	7%	
			$52,539	2 bed	$20,319	49%	19%	
Family (1-2 parents) + 2 dependants	$150,400	$45,120	$70,265	3 bed	$25,145	47%	17%	

Appendix 2 - 2019 City of Sydney 'A Third Way' Submission proposition, assumptions and metrics

Proposition	The Housing Co-operative: • Enters into a commercial ground lease with the local government. • Engages or performs the role of a developer to build the building. • Having the mix of commercial property being rented out at full market rent cross-subsidises the residences and provides the co-op financial support to continue to offer residential rents at the 25% discount to market The Co-op Members: • Contribute equity capital as an initial membership fee to buy into the Co-op which gives the right to occupy a dwelling at either: • 25% discount to market rent in perpetuity. • At cost rental in perpetuity. • A monthly Residence Charge, defined as a regular payment made by residents to cover the opex and capex expenses incurred in managing the Co-op and maintaining the Co-op building over the property lifecycle. • Contribute time into the management and maintenance of the building as well as community building activities. • Can sell their membership to an incoming member upon vacating their unit and ending their membership. • Initial membership fee is returned to outgoing member once new ingoing member is confirmed. Remaining members have a say on new incoming members.
Development summary	GFA = 5,248m^2 Residential NLA = 3,161m^2 Commercial NLA = 1,183m^2 NLA-Coworking = 277m^2 NLA-Guest House = 484m^2 NLA-Retail = 130m^2 NLA-Childcare = 292m^2 * Basement/Carpark = 437m^2 Avg. Unit size = 72m^2 Total Units = 44
Commercial structure and Governance	No specific details on commercial structure but seemed to indicate a single entity for development phase and operational/investment phase.
NFP status	It was assumed that the entity would receive the benefit of charitable status and therefore be exempt from GST, stamp duty and land tax.
Land acquisition method	Ground lease starting at $275k per year and escalating @ $25k per annum. It was not explicit but we assume that to secure debt funding the City of Sydney was willing to offer the land as security for the construction loan.
Income forecasts	**Development Phase** Gross Realised Value (GRV) No GRV was assumed in the modelling. Assumes sale in year 10 @ GRV of $31.5m. **Operational Phase** Net Rental income • Residential: 100% affordable @74.9% of market rent • Commercial: coworking, guest house, retail, childcare, carpark @ 100% market rent Year 1 = $2.58m

Cost forecast	**Development Phase** TDC = $29,241,809 ex GST Build estimate ex contingency ex GST is $20,393,360 which is $3,886 psm on GFA **Operational Phase** Year 1 = $315k operating expense, $275k ground rent, $150k capex and $150k capital works fund. Total of $890k per annum
Funding assumptions and Capital stack	**Development Phase** Capital stack assumed @: 65% LCR from debt investors = $19m 25% equity from impact investors = $7.3m and 10% equity from members of the co-operative = $2.9m Assumed returns were: Equity investor: 7% cost of equity for equity investors > coupon for 4 years of development phase + 10 years of operational phase Co-op member Equity: 0% return for co-op members (average equity contributions of ~$57k per member) Debt investor: 5.7% interest rate for senior debt **Investment Phase** No debt paid down so remains $19m 30 year P&I loan @ 3% interest rate. Senior debt @ 3.86% No liquidity event for Impact investors until sale in year 10 of operations. Debt to Income Coverage Ratio (ICR): Year 1 = 1.58 excluding 'coupon' payment to impact investors

Appendix 3 - 2023 Sydney market feasibility update - key findings

<table>
<tr><th></th><th>Scenario A: Baseline</th><th>Scenario B: Alternative</th></tr>
<tr><td>Summary</td><td>'Missing Middle' co-op with initial Residency Charge set at relevant market rent and indexed @ 2% pa

Ground lease - peppercorn

Commercial debt pricing for development and investment

Equity investor target of 10% IRR

Target pay out investor and debt funder within 30 years</td><td>'Missing Middle' co-op with initial Residency Charge, indexed @ 2% pa
Initial costs estimates suggest initial residency charge would be around 90% of relevant market rent

Ground lease - commercial @ ~ $225k pa escalating @ 3% pa ($12m gross proceeds to Yr 30)
Commercial debt pricing for development and NHFIC for investment

Equity investor target of 10% IRR

Target pay out investor and debt funder within 30 years</td></tr>
<tr><td>Land Area / Value (2019)</td><td colspan="2">3000m² / $15m</td></tr>
<tr><td>Scheme (GFA of 5248m²)</td><td colspan="2">Residential (3161m² NLA) = 44 units at 72m² average.

Communal Space (292m²)

Commercial (1023m² NLA) = Retail (130/3 tenancies), Coworking (277m²/35 desks)

Guest Suites for short term rental (484m²/12)

Yoga Studio (132m²) shared usage of part Communal Space

Basement Parking (437m²)</td></tr>
<tr><td>Income</td><td>Residential - at market based on average Redfern unit rental data

Commercial - as per Colliers advice

Escalation on residential rental of 16.5% during build to 2027 then indexed 2% p.a. during investment phase.

Outgoings @ 11% of income and 1.5% vacancy</td><td>Same as Scenario A ex Residential - starting Residency Charge @90% of relevant market rent, indexed @2%pa</td></tr>
<tr><td>GST</td><td colspan="2">Full GST with liabilities paid and input credits reconciled monthly in arrears - no charity status subsidy</td></tr>
<tr><td>Program</td><td>4-year development period to 2027 and investment hold period of 30 years with hypothetical sale in 2057 ($66.4m inc GST - 7% cap rate)</td><td>Same as Scenario A ex hypothetical sale value ($61.8m inc GST - 7% cap rate)</td></tr>
</table>

	Scenario A: Baseline	Scenario B: Alternative
Capital Stack	Total Development Cost (TDC) @ Certificate Of Occupancy (COO) = $32.4m Investor Equity = $10.3m Debt = $22.1m Co-op Equity = $1.7m ($38k avg upfront Membership Fee per unit) - Yr 1 of investment	TDC @ COO = $32.4m Investor Equity (30%) = $13m Debt (65%) = $19.6m Co-op Equity = $2.1m ($47k avg upfront Membership Fee per unit) - Yr 1 of investment
Equity Financing	Investor target 10% accrued and capitalised Equity repaid in 2049 (Yr 22 investment phase) Equity IRR = 10.1% Surplus cash repays equity regularly after debt whilst maintaining a $150k minimum cash buffer	Investor target: Same as Scenario A Equity repaid in 2051 (Yr 25 investment phase) Equity IRR = 9.27% Surplus cash repays equity regularly after debt whilst maintaining a $150k minimum cash buffer
Construct. Loan	Term - 2026 - 2027 and refinanced by investment loan 8% interest, 0.5% application and 1.5% line fee	
Investment Loan	30 Yr P&I refinanced every 5 years ($100k per refi) 7% interest rate ICR covenant of min 1.37 and DSR minimum of 1.17 (Yr 1-5) Repaid in 2057 (Yr 30) Opportunity in Yr 25-30 to adopt discounted rents given LVR	Same as Scenario A 4.9% NHFIC rate ICR of 1.76 and DSR of 1.30 (Yr 1-5) Loan balance of $16.33m @ Yr 30 (LVR 26%)* Opportunity from Yr 30 to adopt discounted rents given LVR
Yield on Cost	7.6%	7.1%

*Note: LVR is based on co-op income stream, not market level net income at this point in time.

The MVM Framework employs six key dimensions to demonstrate the unique value contribution that co-operatives and mutuals generate. The following briefly describes the value created by CoHousing Australia (CoHA) and this case study.

Commerciality
CoHA compiles knowledge and resources from across the housing and development sector to make it easier for community-led, collaborative housing projects to establish, develop, and govern themselves. The cohousing co-op feasibility study creates a baseline model for a cohousing co-operative. This establishes a working model that can be refined based on location and stakeholder composition. The feasibility study demonstrates that a collaborative approach to housing can produce a viable at cost housing proposition with far reaching applicability across the country. This is a useful conversation starter for any community-led group, local council, state or federal member, philanthropist or land-owner to commence a meaningful conversation about provisioning more diverse, affordable, and place-based housing solutions to meet their community's needs. Most significant is the scalability and replicability of this model. It is possible to develop at cost housing in the current market without subsidy and catalyse a new sector of housing that can be self sufficient.

Shaping Markets
The dominant housing market and associated housing development system evolved in a different era which does not respond to today's priorities of people, planet, and place. CoHA is able to reach households, practitioners, policy advisers and politicians to illustrate alternative housing solutions that help foster community connection, enhance care for each other and the world around them, and develop essential skills in collaboration and participatory democracy. The co-op model is founded on key principles of mutuality and solidarity. This is the lens through which we need to view housing. The co-op model has been an instrument to create fair labour and fair wages, it makes sense to utilise it in pursuit of fair housing for those who cannot service the ever increasing cost of housing. An independent co-op housing sector would help provide a genuine alternative to traditional home-ownership and the private rental market, taking pressure off both the housing market and the social and affordable housing sector. A community-led co-op sector enables a proactive approach for people to house themselves.

Member Relationships
CoHA is mindful of our capacity as a volunteer organisation. We value the contribution made by our extensive network of dedicated contributors who are aligned in a shared concern for creating better housing, better cities, and happier people and places. We see our members as our greatest allies and those to whom we are of service. CoHA is developing a range of resources. We have a backlog of webinars and lots of knowledge we are putting together as an online resource. The co-op model is useful as we move into generation rent and the increasing occurrence of life-long rental. A co-op housing model eliminates the landlord/tenant relationship. It alleviates the resident/owner occupier/absent investor dynamic of conventional multi-unit developments. It puts residents in the driver's seat, allows for flexible leases, more nuanced financial obligations, and collective governance.

Community Relationships
Reimagining housing is good for everyone. Cohousing promotes more sociable housing outcomes, greater environmental potential, and aligns an appetite for creative finance that can help change individual and market expectations. Developing a community-led sector will put future residents at the heart of housing delivery. This is essential as we move to consolidate urban growth and develop a place-based approach to housing, sustainability, and governance. Cohousing and co-operative models of housing can act as a fourth layer of participatory governance, building relational solutions to the 'wicked problems' we face. A third sector of co-op housing would help shift the entrenched narrative of the market/welfare binary of the existing housing landscape. Enabling new models of housing will generate new partnerships and relationships between community, government agencies, community housing providers, landholders, development professionals, philanthropy and social impact investors. Through these values aligned relationships new permutations are possible, building out toward a true spectrum of housing that offers choice and agency with dignity and security.

Ecosystem Reciprocity
CoHA works with others to create value through knowledge sharing and cross pollination. We

have a horizontally distributed organisational structure, and use dynamic governance decision-making processes. The collaborative housing network comprises subject matter experts, professionals, academic, advocates, resident and future resident contributors. We are building partnerships with organisations that have shared goals, supporting each other's work and strategic advocacy. We have partnered on events with the New Economy Network Australia (NENA), and the Business Council of Co-operative and Mutuals (BCCM) and are activating these intersecting networks for further collaboration. This report is the outcome of a collaboration with BCCM. We appreciate both the grant and the collaborative working relationship we have developed to build this report, and in future, a co-operative housing sector. We are networking with other like minded organisations some of whom have a specific housing agenda and others with whom we have cohorts, values, or objectives in common. The co-op housing model holds significant potential for creating regenerative relational potential. Housing-places where people can foster social connection, enjoy privacy and security, and participate in activities that enrich their lives. Community is the first building block of society.

Mutual Mindset
CoHousing Australia is a registered co-operative, therefore subject to and upholding the seven internationally recognised co-operative principles:

1. Voluntary and open membership
2. Democratic member control
3. Member economic participation
4. Autonomy and independence
5. Education, training, and information
6. Co-operation among co-operatives
7. Concern for community

CoHA is a grassroots organisation, led by a dedicated team of volunteers from a diverse range of expertise and background. Financial contributions and donations made to our co-operative come from a place of immense generosity, typically with a sense of care and awareness of a broad community responsibility to foster the conditions necessary for a better world. Our tool of choice in that mission is housing. CoHA is currently developing a range of resources that will support community-led housing initiatives, particularly cohousing. These tools will be made available to both our members and also the broader community.

We engage with partner'allied organisations and agencies in good faith, working with a diverse range of stakeholders to develop mechanisms which support the creation, development, and operation of community-led housing typologies. We are hopeful that as the cohousing sector grows, we will also grow. Becoming more economically secure will enable us to deliver better on our mutual mindset: working in partnership with grassroots communities to share our support and expertise in ways which will deliver benefit to our members, supporters, and the broader society. Co-operative housing models are of course founded on the same set of co-operative principles as CoHousing Australia unholds. These values offer a radically new lens through which to view the design, development and distribution of housing. A new housing paradigm for Australia which frames housing as a common, or collective good.

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